

***CREATING A SHARED CALIFORNIA ECONOMIC STRATEGY:
A CALL TO ACTION***

Prepared by the California Economic Strategy Panel
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CALIFORNIA ECONOMIC STRATEGY PANEL

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See Addendum I.

Hosts

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California Association for Local
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California Chamber of Commerce

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PREFACE

The bipartisan California Economic Strategy Panel was created to develop a statewide vision and strategy to guide public policy decisions for economic growth and competitiveness. The fifteen member Panel is comprised of eight appointees by the Governor, two appointees each by the President pro Tempore and Speaker and one each by the Senate and Assembly Minority Floor Leaders. The Secretary of the California Technology, Trade and Commerce Agency serves as the Chair.

This past year, the Panel members engaged in a series of deliberations with economists, experts in infrastructure investments and development, and professionals in regional workforce and economic development. The members heard the need for state government to take the lead in critical areas that impact the growth and competitiveness of the California economy.

The continued underperformance of the economy and state government budget crisis call for extraordinary action. In this report, the California Economic Strategy Panel recommends immediate and longer-term actions by the Governor and the Legislature.

For more information on the Panel and its work, see www.commerce.ca.gov, then select California's Economy.

INTRODUCTION

The promise of the California economy has been shared prosperity and increasing opportunity for our people and businesses based on productivity, innovation and investment. The remarkable progress of our state's economy has created a strong foundation for our high quality of life.

This economic promise is now threatened as we fail to achieve our potential both in the short term, creating unemployment and budget deficits, and also in the longer term as we fail to make necessary investments in the skills and critical infrastructure required to be competitive. California needs a focused strategy with responsibility shared for the stewardship of the economy by business, workers, communities, education and training institutions, as well as government to ensure the economic well-being of our state and regions.

This is the central finding of the California Economic Strategy Panel, which was established by the Legislature to monitor the performance of the California economy and its regions, report progress, identify critical issues, and make recommendations to the Governor, Legislature and the public. The Panel believes that it is time to be bold – to hold ourselves accountable for the performance of the economy. The Panel also believes that this requires investing in four critical areas, as discussed later in this report, that are the cornerstones for building a shared economic strategy for our state and our regions.

PANEL FINDINGS

The following is a summary of critical findings of the Panel that support its recommendations:

- The California economy is under-performing relative to its potential.
- California currently lacks a focused economic strategy with accountability for investment and outcomes. In addition, economic development incorporates a wide variety of government functions and policies, such as education and workforce development, housing, transportation, energy, environmental protection and tax policy. The lack of a unified economic development strategy has resulted in duplication, gaps and state and local government working at cross-purposes.
- Local and state policy-makers require reliable and timely economic data and information about the changing dynamics of industries and economic regions to improve decision-making. Regular monitoring and updating of industry and regional information is also needed if California is to be competitive in the rapidly changing global economy.

- Economic strategy and workforce development need to be better connected based on real time information and joint planning.
- Infrastructure investment needs to focus on the “triple bottom line” of economic impact, environmental sustainability and equitable development. Numerous reports have documented the need to address the accumulated backlog of maintenance work, as well as the need to fund new infrastructure. During the next 20 years, California infrastructure will have to accommodate about 12 million more people, 6 million more workers and 4 million new homes. New planning methods, new funding sources and new technologies will be needed to handle this enormous challenge efficiently and cost-effectively.
- The state is viewed as a highly desirable place to live by people outside the state, primarily due to its natural amenities and the “California lifestyle.” However, both corporate executives and small business owners view the state as having a costly and unfavorable business climate. Cost concerns include: the levels and complexity of taxes, fees and other assessments; compliance with existing and new regulations; and, workers’ compensation rates combined with low benefits. The cost of doing business is a major factor in the location, retention and expansion of businesses in California.
- State leadership, combined with regional and local economic collaboration is required to ensure better accountability for economic development investments and to promote a stronger California economic leadership network.
- The long-term fiscal health of state and local governments is dependent on a strong and competitive California economy. Ensuring such an economy requires strategic planning and other pro-active state economic development efforts.

RECOMMENDATIONS

The Panel recommends the following immediate actions that can be taken by the Governor and the Legislature.

- Make a commitment to work with the California Economic Strategy Panel to develop a long term shared economic strategy, based on better economic data and information that is widely shared, and utilize the Panel to help ensure accountability for economic goals.
- Declare economic goals with measurable outcomes and clear criteria to hold state agencies accountable to these goals. Goals should include rising real per capita income, job growth, new business creation, growing private sector investment, increased minority entrepreneurship and reduced income inequality.

- Work with state agencies and the Legislature to create a unified economic development budget, including both tax and regulatory incentives and spending to achieve these clear economic goals.
- Make connecting workforce development and economic development the state's top priority.
- Work with other statewide elected officials to commit infrastructure investments including recently approved bond issues and implementation of AB 857 and *Building Better Buildings: A Blueprint for Sustainable State Facilities* that meet a "triple bottom line" criteria to achieve economic, environmental and equity payoffs.
- Assess the business climate concerns of corporate executives and small business owners, particularly in regards to their impact on the competitiveness of California. Reforms or other state actions should be taken based on the findings of each assessment.
- Complete an inventory of state infrastructure assets crucial to economic development.
- Complete re-appointments and new appointments to the California Economic Strategy Panel for the next biennial cycle.
- Support Governor Davis in leading the National Governors Association's efforts in regional industrial cluster studies and economic growth strategies.

The Panel recommends the following longer-term actions by state and local government in collaboration with business, labor, communities, education, training and regional organizations. Key entities would include Workforce Investment Boards, Economic Development Corporations, Collaborative Regional Initiatives and other stakeholders in California's diverse regions.

Investment in the following four critical areas provides the framework for the Panel's work plan for 2003-2004.

- **"Real Time" Economic Data and Information.**

Establish a strategic alliance with the California Workforce Investment Board (CWIB) and the California Employment Development Department (EDD) to: 1) continuously examine the economic base and employment patterns of the Panel's nine economic regions and publish annual *Regional Economic Base Reports*; and, 2) continuously examine industry clusters and cross-regional economic and labor issues resulting in policy recommendations. Also publish semi-annual *Industry Cluster and Cross-Regional Economic and Labor Studies* under an Interagency

Agreement and Memorandum of Understanding between the California Technology, Trade and Commerce Agency and the CWIB and EDD, respectively.

Continuously monitor the performance of the economy and measure state investment priorities that leads towards efficiency, equity and sustainable use of land and resources.

- **Connect Workforce Development and Economic Development and Focus on Regions and Industrial Clusters.**

Establish a strategic alliance with the California Workforce Investment Board and the California Employment Development Department, and appoint a member of the California Economic Strategy Panel as an ex officio member of the California Workforce Investment Board.

Serve as leader/convener by bringing business/industry, labor, education and training leaders and other groups together to discuss economic data and information and develop policy recommendations. Topics for discussion include how the regional economies are changing, and what are the appropriate occupational mixes and wage rates within various industry sectors, considering educational, vocational and skill-set requirements.

- **Infrastructure Investment Focused on the Triple Bottom Line that Achieves Economic, Environmental and Equity Payoffs.**

Establish a coordinating mechanism to develop policy recommendations for the investment of new state bonds for housing, transportation and water in ways that achieve economic, environmental and equity payoffs and more sustainable use of land and resources to support regional economic prosperity.

Lead state government to 1) use available resources in a coordinated and targeted manner to invest in infrastructure that has maximum economic benefit (not invest in infrastructure for the sake of infrastructure); 2) identify better investment models, such as the Alameda Corridor model, for public/private investments and better utilization of assets owned by state government (begin with an inventory of state assets related to infrastructure); and, 3) get beyond localism to support infrastructure of statewide significance and demands, especially regarding telecommunications/information, intermodal goods movement and water transfer systems and housing.

Convene key decision-makers to 1) identify new sources of funds and new financing methods; 2) develop a planning-driven method versus a project-based or pork barrel approach; and, 3) develop a return-on-investment accountability method for infrastructure investment.

“Tell the story.” Schedule speaking circuits and participate in meetings to 1) voice the critical symbiotic relationship between infrastructure and economic growth and competitiveness; 2) frame what the universe of infrastructure is; 3) identify elements that are the most critical statewide, regionally and locally, short-term and long-term such as the economic impact of lack of housing on productivity and higher costs; and, 4) further the recommendations in *Invest for California: Strategic Planning for California’s Future Prosperity and Quality of Life* by the Governor’s Commission on Building for the 21st Century.

Create a California Economic Leadership Network.

The Panel lead a California Economic Leadership Network to 1) support regional collaboration through “bottom-up,” statewide public/private partnerships; 2) connect regional innovation to state resources; 3) document the new economic reality that different industry clusters/workers are emerging in each region, and groups in regions are collaborating around distinct strategies to support their unique industry cluster opportunities; and, 4) draft strategies to align state resources and infrastructure with regional industry cluster demands.

Conduct regional forums with groups such as local Workforce Investment Boards, Economic Development Corporations and Collaborative Regional Initiatives to discuss findings from the economic base analyses and how the regional economy is changing.

ORIGIN OF THIS REPORT

The current members of the California Economic Strategy Panel convened their first meeting on April 11, 2002 (refer to Addendum II). Recognizing that the biennial planning cycle requires the Panel to complete a report by December 31, 2002 the members agreed to develop recommendations and an implementation workplan for 2003 and 2004.

The meeting on April 11, 2002 identified four major themes that would provide the basis for further discussion and analyses. The major themes are:

- Understanding the Changing California Economy (Identify and analyze current industry clusters and regional economic development; analyze the impact of globalization, especially the changing nature of supply chains; analyze uneven regional growth, especially the needs of rural economies and disadvantaged urban communities, and how they relate to larger economic regions; and, examine the next regional economies of California driven by new waves of innovation such as bio/life sciences, nanotechnology, telecommunications and new energy technologies);

- Connecting Emerging Job Trends and Occupational Demands to Workforce Training (Monitor changing regional economies on a regular basis to report job trends and occupational demands; analyze demographic trends, especially diversity and their impact on regional economies and demands of leading industry clusters; and, connect economic strategy with workforce development strategy on a continuous basis);
- Adapting Infrastructure to the Changing Economy (Analyze how the changing economy creates different infrastructure requirements by industry clusters and across regions; analyze how regulatory policies impact infrastructure development such as telecommunications; and, identify innovative ways to invest in infrastructure such as more efficient materials, construction processes and transportation systems); and,
- Matching Regional Governance with the “Next Economies” (Analyze how the new economic realities require examining alternative regional governance models; examine ways to better connect regional economic development efforts with inter-regional partnerships; and, identify ways to better align regional needs with state resources and policies).

On May 23, 2002 the California Economic Strategy Panel convened to discuss with economists, experts in infrastructure investments and development, and professionals in regional economic and workforce development the most critical issues and demands for economic growth and competitiveness and what could be the role of the Panel (refer to Addendum III). The following roles and responsibilities surfaced during the discussion:

- Economic Analyses (Identify the drivers of regional economies and job growth; identify and examine opportunities and constraints of leading and emerging industries; and, identify distinct needs of and opportunities for rural and remote economic regions);
- Issues Identification (Identify policy issues important for the success of the California economy over the longer term, incorporating broader competitiveness requirements including quality of life and equity considerations; and, identify public sector investment priorities, especially in the context of holistic planning); and,
- Policy Recommendations and Collaboration (Serve as a “vortex” for California’s economic future by bringing leading thinkers and professionals together to the table, and helping Californians understand critical prosperity issues and investment needs; provide economic policy leadership across state agencies; develop strategies towards realigning state policies, systems, resources and programs; clarify partnership roles and help link system partners; and, connect regional economies and industry cluster relationships across regions, and communities within regions).

The Panel members divided into groups to work with Technical Advisors for in-depth analyses in the following four policy areas:

- Infrastructure Policy Committee (Senator Bruce McPherson, Jerold Neuman, Lee Pearson, Vincent Chong and Ricky Laster);
- Economic Data and Information Policy Committee (Donald Fowler and Bill Simmons);
- Workforce Development and Education Policy Committee (Senator John Vasconcellos, Bill Simmons, Donald Fowler and Amy Dean); and,
- Governance and Regionalism Policy Committee (Sunne Wright McPeak and Araceli Ruano).

A summary review of statewide and regional policy reports published in the past 3-4 years regarding the above four policy areas was completed in a matrix format by Technical Advisors and served as a basis for discussion during committee meetings held in August and September, 2002 (refer to Addendum IV).

On October 10, 2002 reports summarizing discussions and recommendations from each of the policy committees was presented and discussed by the full Panel (refer to Addenda V and VI). Panel members generally agreed that the principal role of the Panel is to provide leadership by serving as a catalyst for connecting regional innovation and economic demands and framing state-level policies and investments through a bottom-up governance process and collaboration. The work of the Panel is to continuously monitor and interpret the performance of the California economy to be able to articulate what is coming and what is needed to prepare for changes.

On December 2, 2002 the Panel members reviewed a draft Workplan Framework and discussed a variety of recommendations based on its findings (refer to Addenda VII and VIII). The members also reviewed and approved a regional industry employment model using EDD Covered Employment and Wages data (ES 202 data) for the Panel to use to analyze the performance and changes of the California economy. Finally, the members agreed to include a letter from the California Works Foundation recommending critical issues the Panel should consider in carrying out its work (refer to Addendum IX).

The final report was completed on December 20, 2002 for presentation to Governor Davis, the Honorable Members of the Legislature and entities having economic development responsibilities.